

Fair Rental Value System: Capital Payments to Nursing Homes

Discussion Points for the
DCH Audit Committee
June 12, 2008



Desirable Outcomes of FRV

- Provides Additional Funds Outside of the Current Cost Reimbursement Structure to Provide for Capital Improvements in Order to:
 - Improve the Physical Plant and General Condition of Nursing Facilities Across the State
 - Build Capacity to Provide for the Needs of “Baby Boomers” in Georgia
 - Update Facilities - Particularly, Older Ones – to Make Them More Attractive to Prospective Residents.



Overview of FRV Concept

Goal: To determine the rental rate of a NH bed based on market-based rental values.

- Not directly correlative to property owner's cost to own the building/pay the mortgage/provide routine maintenance
- Considers the building's age in determining fair rental value...the older the building, the less the FRV

Two Key Functions of the FRV Model

- Uses a Generally Accepted Set of Construction Indices (RSMeans) to Convert the Costs of Renovation Projects and Bed Expansions Into Factors that Effectively Reduce the Initial Age of the Facility
- Reducing the Facility's Initial Age Reduces the Number of Depreciable Years and the Accumulated "FRV Depreciation" and increases the FRV

Logistics

- Example of Algorithm used to calculate FRV (see Attachment 1)
- Definition of Renovation Project (see Attachment 2)
- DCH Proposed Variables and Facility Impact (see Attachment 3)

Opportunity to Fund New Capital Improvements

- Application of the Proposed FRV Model Does Not Exhaust the Entire FY 2009 FRV Appropriation
 - Our Application of the GHCA FRV Model immediately spends **\$30.3 million** of the Available \$49.2 million
 - **\$5.0 million** is left available for new FY 2009 Renovation Projects
 - No facility would be paid less than their current Dodge Rate Levels if their FRV is lower than Dodge
 - Remaining **\$13.9 million** for cost report update

Next Steps

- Public Notice
 - Posting (today)
 - Public Comment Period (thru June 27)
 - DCH Board Approval (July 10)
- DCH/NH Advisory Committee to work through operational details of FRV application (June/July)
- Submission to CMS for state plan amendment approval (June)
- Retroactive application of new rates back to July 1 2008 dates of service once approved by all parties